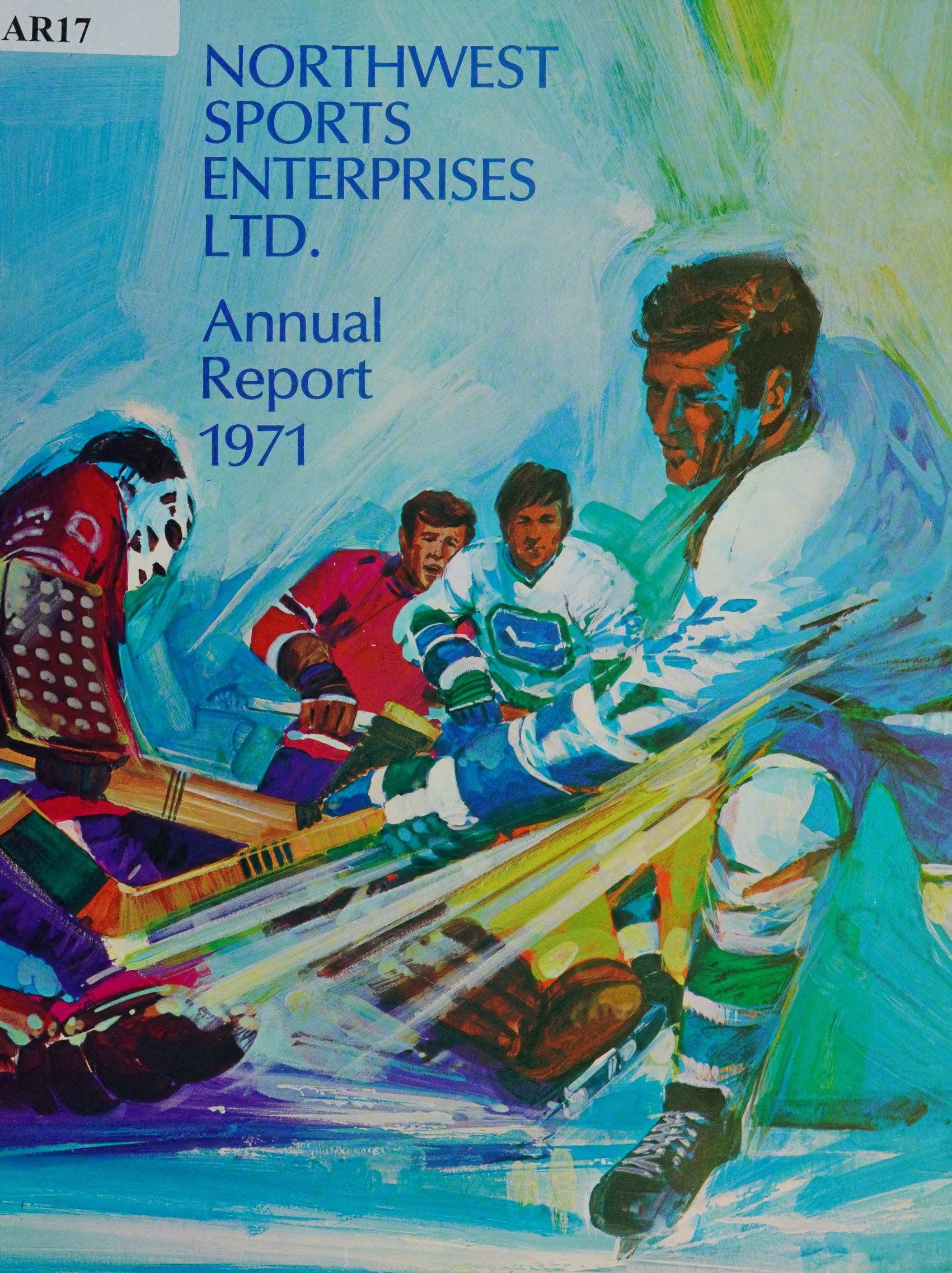




NORTHWEST SPORTS ENTERPRISES LTD.

Annual
Report
1971

NORTHWEST SPORTS ENTERPRISES LTD.

Pacific Coliseum, Exhibition Park
100 Renfrew Street N., Vancouver 6, B.C.

Directors

Cyrus H. McLean — Chairman
Thomas K. Scallen
Lyman D. Walters
Coleman E. Hall
Herb P. Capozzi

Officers

Cyrus H. McLean — Chairman of the Board
Thomas K. Scallen — President and Treasurer
Lyman D. Walters — Senior Vice-President
William W. Winnett — Executive Vice-President
Norman R. (Bud) Poile — Vice-President
Oscar F. Lundell, Q.C. — Secretary

Transfer agent and registrar

Montreal Trust Company

Underwriter

Royal Securities Corporation Limited

Auditors

Deloitte, Haskins & Sells

REPORT TO THE SHAREHOLDERS

After many years of waiting, Vancouver's entry into the National Hockey League became a reality last fall, and it is a source of considerable satisfaction to all of us associated with the Vancouver Canucks Hockey Club, that the first year of operation of our new team was met with such wholehearted support of the people of Vancouver and Western Canada, and completely justified our faith in bringing N.H.L. hockey to Western Canada.

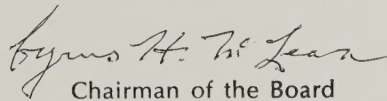
Consolidated earnings for the year ended June 30, 1971 amounted to \$610,720, which represents earnings per share of \$.67 based on the weighted daily average number of shares issued and outstanding during the year ended June 30, 1971, or \$.64 per share on a fully diluted basis.

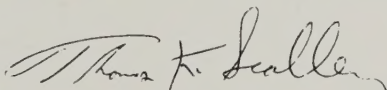
The comparative earnings figures for the year ended June 30, 1970 presented on the Consolidated Statement of Income and Retained Earnings represent largely the earnings of the Vancouver Canucks in the Western Hockey League one year ago.

It is important to note that the Vancouver Hockey Club Ltd., a wholly-owned subsidiary, has not yet received a final ruling from the Department of National Revenue on the deductability for income tax purposes of amounts spent to purchase player contracts at the National Hockey League expansion draft in June of last year. This company has made full provision for income taxes against its earnings for the year ended June 30, 1971. However, in management's opinion, a favourable ruling will be obtained which will result in a reduction or elimination of the current liability for income taxes of that company.

All available seating has been completely sold out for the entire 1971-72 season at the Pacific Coliseum and we would therefore anticipate increased earnings in the coming year. The average attendance, including general admission, during the 1970-71 season at the home games of the Vancouver Canucks, represented about 97.8% of the maximum seating capacity.

Reflecting our highly successful first year of operation, the directors were pleased to declare a dividend of 25 cents per share payable November 15, 1971 to shareholders of record November 1, 1971.


Chairman of the Board


President

Vancouver B.C.
November 1, 1971

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1971 (with 1970 figures for comparison)**ASSETS**

	1971	1970
CURRENTS ASSETS:		
Cash	\$ 202,667	\$ 137,704
Short-term interest-bearing securities — at cost	3,501,041	—
Accounts receivable	56,461	38,265
Current portion of indemnifications receivable, including accrued interest	116,059	54,350
Prepaid expenses and other (Note 2)	181,677	87,843
Due from parent company	13,648	—
Total current assets	<u>4,071,553</u>	<u>318,162</u>
INVESTMENTS:		
Franchises and rights to players (Notes 3 and 11 B)	8,265,275	8,276,336
Investment and equity in hockey leagues	81,955	75,396
Total investments	<u>8,347,230</u>	<u>8,351,732</u>
OTHER ASSETS:		
Indemnifications receivable, less current portion shown above	81,164	201,379
Leasehold improvements and equipment (Note 4) less accumulated depreciation and amortization (1971 — \$17,382; 1970 — \$5,555)	119,316	6,101
Unamortized debenture discount and expenses (Note 7)	186,950	—
Incorporation costs	1,987	1,486
Total other assets	<u>389,417</u>	<u>208,966</u>
Total	<u><u>\$12,808,200</u></u>	<u><u>\$ 8,878,860</u></u>

APPROVED BY THE BOARD:

Cyrus H. McLean, Director

Thomas K. Scallen, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1971	1970
CURRENT LIABILITIES:		
Demand bank loan — secured	\$ —	\$ 673,321
8% note payable due June 30, 1971	—	77,270
8¼ % note payable — bank	30,702	—
Current portion of long-term debt, including accrued interest	1,117,082	974,705
Accounts payable and accrued charges	307,159	168,954
Income taxes (Note 5)	857,600	168,700
Deferred revenue on advance sale of tickets	1,570,643	892,366
Due to parent company	—	87,712
Deferred income taxes (Note 5)	72,200	42,000
Total current liabilities	<u>3,955,386</u>	<u>3,085,028</u>
DEFERRED INCOME TAXES (Note 5)	<u>52,600</u>	<u>65,450</u>
LONG-TERM DEBT:		
Due to NHL member clubs (Note 6), less current portion shown above	2,550,000	3,400,000
Due to the NHL, the WHL and WHL member clubs (Note 6), less current portion shown above	568,550	775,300
8½ % convertible subordinated debentures due November 15, 1990 (Note 7)	2,000,000	—
Total long-term debt	<u>5,118,550</u>	<u>4,175,300</u>
SHAREHOLDERS' EQUITY (Note 7):		
Share capital:		
Authorized:		
2,000,000 common shares without nominal or par value		
Issued and fully paid:		
1,000,000 (1970 — 800,000) common shares —		
200,000 issued on December 8, 1970		
for \$1,558,340 cash	2,713,895	1,155,555
Retained earnings	967,769	397,527
Total shareholders' equity	<u>3,681,664</u>	<u>1,553,082</u>
Total	<u>\$12,808,200</u>	<u>\$ 8,878,860</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 1971 (with 1970 figures for comparison)

	1971	1970
REVENUE:		
Game ticket sales	\$ 3,649,067	\$ 1,501,671
Program advertising, radio and TV rights — net	776,216	80,899
Interest income (including \$145,152 from parent and affiliated companies; 1970 — \$Nil)	169,184	33,876
Sundry — net of related expenses of \$151,786 (1970 — \$141,412)	76,125	21,280
Total revenue	<u>4,670,592</u>	<u>1,637,726</u>
EXPENSES:		
Operating:		
Team costs	1,528,029	793,634
Rent	372,747	212,227
Other	204,696	133,055
General and administrative	733,533	256,348
Interest on long-term debt	318,589	10,455
Other expenses — net	181,793	(29,341)
Total expenses	<u>3,339,387</u>	<u>1,376,378</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	<u>1,331,205</u>	<u>261,348</u>
PROVISION FOR INCOME TAXES (Note 5):		
Current	704,135	28,700
Deferred	16,350	106,000
	<u>720,485</u>	<u>134,700</u>
INCOME BEFORE EXTRAORDINARY ITEMS (Note 10)	<u>610,720</u>	<u>126,648</u>
EXTRAORDINARY ITEMS (Note 8)	<u>—</u>	<u>85,800</u>
NET INCOME FOR THE YEAR (Note 10)	<u>610,720</u>	<u>212,448</u>
RETAINED EARNINGS AT BEGINNING OF THE YEAR:		
As previously reported	528,527	316,079
Provision for proposed reassessment of prior years' income taxes (Note 5)	131,000	131,000
As restated	<u>397,527</u>	<u>185,079</u>
COMMON SHARE ISSUE EXPENSES	<u>1,008,247</u>	<u>397,527</u>
	40,478	—
RETAINED EARNINGS AT END OF THE YEAR	<u>\$ 967,769</u>	<u>\$ 397,527</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED JUNE 30, 1971 (with 1970 figures for comparison)

	1971	1970
FUNDS PROVIDED:		
Funds provided from operations representing net income for the year after adjusting for items not requiring an outlay of funds	\$ 615,976	\$ 176,031
Issue of 8½ % convertible subordinated debentures (net of related discount and issue expenses of \$192,760)	1,807,240	—
Issue of common shares (net of related issue expenses of \$40,478 charged direct to retained earnings)	1,517,862	—
Reduction in non-current portion of indemnifications receivable	120,215	52,669
Reduction in franchises and rights to players (1971 — adjustment of capitalized interest; 1970 — tax savings realized on loss carry forward)	11,061	10,325
Refund of National Hockey League application fee	—	25,000
Total funds provided	<u>4,072,354</u>	<u>264,025</u>
FUNDS APPLIED:		
Acquisition of franchise and rights to players: National Hockey League, less \$3,400,000 of long-term debt in 1970	—	2,724,705
Additions to leasehold improvements and equipment	124,870	2,607
Reduction in non-current portion of long-term debt	1,056,750	—
Reduction in long-term portion of deferred income taxes	7,200	—
Reduction in non-current portion of advances and note payable	—	90,925
Invested in NHL	—	57,541
Incorporation costs	501	—
Total funds applied	<u>1,189,321</u>	<u>2,875,778</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>2,883,033</u>	<u>(2,611,753)</u>
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR:		
As previously reported	(2,635,866)	(24,113)
Provision for proposed reassessment of prior years' income taxes (Note 5)	<u>(131,000)</u>	<u>(131,000)</u>
As restated	<u>(2,766,866)</u>	<u>(155,113)</u>
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	<u>\$ 116,167</u>	<u>\$ (2,766,866)</u>

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1971

1. PRINCIPLES OF CONSOLIDATION AND FOREIGN EXCHANGE:

The consolidated financial statements include the accounts of all subsidiaries, all of which are wholly-owned, as follows:

Vancouver Hockey Club Ltd. (Vancouver Hockey)
 Rochester Americans Hockey Club 1969, Inc. (Rochester Americans)
 Canuck Publishing Ltd. (Incorporated August 10, 1970)
 Burrard Hockey Club Ltd. (Burrard) — inactive

Assets, liabilities, revenues and expenses of the U.S. subsidiary, Rochester Americans Hockey Club 1969, Inc., have been translated to Canadian dollars at the following rates of exchange:

- Current assets and liabilities — at the rate of exchange prevailing at the balance sheet date.
- Non-current assets — at the rate of exchange prevailing at the date the parent acquired the shares of the U.S. subsidiary or at the date of later transactions.
- Revenue and expenses — at the average exchange rate during the year.

2. PREPAID EXPENSES:

Each year Vancouver Hockey incurs significant costs and earns some revenue prior to June 30 which apply to the operation of the hockey team in the next National Hockey League (NHL) season. It is that company's practice to include such net costs in prepaid expenses and charge them against income in the next succeeding fiscal period. As at June 30, 1971 such costs, net of revenue deferred on the sale of players in the June draft of \$15,000 (1970 — \$61,837), amounted to \$144,496 (1970 — \$84,095). The balance of \$37,181 (1970 — \$3,748) represents other expenses paid in advance in the ordinary course of business, inventory of novelties and deposits.

3. FRANCHISES AND RIGHTS TO PLAYERS:

Franchises and rights to players consist of the following:

National Hockey League (NHL) — at cost, including the indemnification liability to the Western Hockey League (\$775,300) and interest on amounts due to NHL member clubs to October 1, 1970 (\$113,644)	\$6,888,944
Western Hockey League (WHL) — at cost	515,077
American Hockey League (AHL) — at cost, less tax savings of \$46,600 arising from losses incurred prior to date of acquisition of Rochester Americans	861,254
	<u>\$8,265,275</u>

For accounting purposes, it is the practice of the companies not to amortize the original cost of franchises and of rights to players against income. Additional costs of rights to players are expensed as acquired and the proceeds of sale of rights to players are credited to income as sold.

4. LEASEHOLD IMPROVEMENTS AND EQUIPMENT:

Leasehold improvements and equipment as at June 30, 1971 are generally stated at cost except as follows:

- Hockey equipment of Vancouver Hockey — at nominal value of \$1.
- Office and hockey equipment of Rochester Americans — at estimated fair market value as at July 3, 1969, the date of acquisition by Northwest Sports Enterprises Ltd., which was equal to the net book value of the assets, with subsequent additions at cost.

It is the subsidiaries' practice to provide for amortization of leasehold improvements on a straight-line basis over the term of leases and to provide for depreciation of furniture and fixtures and the various categories of equipment on the straight-line basis at the rate of 20% per annum. The amount so provided was:

	1971	1970
Depreciation	\$ 8,188	\$ 4,545
Amortization	3,467	—
Total	<u>\$11,655</u>	<u>\$ 4,545</u>

5. INCOME TAXES:

A. Current:

Management is confident that Vancouver Hockey will obtain a favourable ruling from the Department of National Revenue — Taxation Division to allow that company to amortize the original cost of franchises and rights to players against income for income tax purposes. The tax savings resulting from a favourable ruling would not flow through as a credit to income in the years in which the amounts were amortized or in any other year. The tax savings would be realized however, in the form of a decrease in current income taxes payable and consequently in an increase in working capital.

To conform with generally accepted accounting principles, Vancouver Hockey has not anticipated the amount of tax savings which it may realize from this ruling and has correspondingly included its total provision for current income taxes for the year ended June 30, 1971 of \$700,800 in current liabilities. This current liability could be reduced or eliminated depending on the amount of the amortization allowed and the period over which the amount will be amortized.

The Department of National Revenue has informed Vancouver Hockey that it proposes, on reassessment, to increase that company's reported taxable income for the taxation years ended June 30, 1966 to 1970 inclusive by a total of approximately \$1,075,300 as follows:

Include the indemnification receivable in the 1967-68 NHL expansion as taxable income ..	\$ 255,000
Disallow the deduction of the indemnification liability to the WHL incurred when the NHL franchise was acquired in 1970	775,300
Disallow miscellaneous expenses incurred throughout the four year period	45,000
	<u>\$1,075,300</u>

The question of the taxability and deductibility of indemnification receipts and indemnification liabilities respectively has been deferred and is to be reviewed along with Vancouver Hockey's request to amortize the original cost of franchises and rights to players as discussed above. Although management disagrees with the Department's proposed treatment of these matters and feel they can support the position that the indemnification receipt of \$255,000 was a non-taxable capital item and that the indemnification liability of \$775,300 was incurred to earn income, they have made full provision in the accounts for the possible income tax effects of the proposed reassessments as follows:

- Provision for income taxes of \$131,000 on the indemnification receivable of \$255,000. Since this receivable was credited to retained earnings in 1968 as a capital item, the corresponding provision for income taxes has been charged directly to consolidated retained earnings. The opening balance of consolidated retained earnings and current taxes payable in the 1970 comparative figures have been restated to give retroactive effect to this adjustment of a prior period transaction.

- (b) The indemnification liability of \$775,300 which was claimed for income tax purposes in 1970 and which created a loss carry forward for income tax purposes of approximately \$676,200 as at June 30, 1970 was not taken into consideration in calculating the provision for income taxes for financial statement purposes at that date. Vancouver Hockey has not adjusted the current income tax liability of \$37,700 as at June 30, 1970 thereby providing for the tax on income if the deduction of the indemnification liability is disallowed. If the deduction is allowed, that company will not incur the liability of \$37,700 and it will retain the loss carry forward of \$676,200 to be applied against future taxable income.

B. Deferred:

Deferred income taxes relate to Vancouver Hockey only and comprise the following:

(a) Current:

\$72,200 on account of costs deferred to the 1971-72 NHL season (see Note 2).

(b) Long-Term:

\$56,800 on account of interest costs capitalized as part of the cost of the franchise and rights to players in the National Hockey League (see Note 3).

4,200 — a net deferred income tax debit on account of other timing differences between accounting and taxable income.

\$52,600

C. Tax Losses:

The company and Rochester Americans have losses available to be carried forward, on an accounting basis, of approximately \$28,000 (arising from common share issue expenses charged direct to retained earnings), and U.S. \$91,000 respectively. The potential tax saving which would result from the application of such losses has not been recognized in the accounts.

Depending on the outcome of the negotiations with the Department of National Revenue regarding the deductibility of the indemnification liability of \$775,300 discussed under A.(b) above, Vancouver Hockey may have losses available for carry forward purposes of approximately \$676,200 on a tax filing basis, as filed in 1970.

6. LONG-TERM DEBT:

A. Due to NHL Member Clubs:

The balance of the liability under the NHL franchise agreement and related player purchase plan agreement amounting to \$3,400,000 at June 30, 1971 is payable \$850,000 per annum on June 1 of each year with interest at the prime rate charged by the Royal Bank of Canada, Montreal, on May 1 in the year each payment is made.

The following assets were or were agreed to be assigned or pledged as collateral security for this outstanding debt:

(a) Lease on Pacific Coliseum in Vancouver.

(b) All of the outstanding share capital of the company's subsidiaries except for Canucks Publishing Ltd.

(c) Players' contracts.

B. Due to the NHL, the WHL and WHL Member Clubs:

The balance of this liability resulting from an indemnity to the WHL settled by an agreement dated September 15, 1970 is payable as follows:

- (a) \$206,750 (U.S. \$200,000) on October 1, 1971 and \$155,050 (U.S. \$150,000) on October 1, 1972 with interest quarterly commencing December 15, 1970 at the prime rate charged by the Chase Manhattan Bank, New York City, on the first of the month in which each payment is required.

These amounts are guaranteed by the company and Rochester Americans and the company has assigned as security, subject to the assignment and pledge set out in Note 6A above, all of the outstanding share capital of its subsidiaries except for Canucks Publishing Ltd.

- (b) \$413,500 (U.S. \$400,000) payable \$103,375 (U.S. \$100,000) per annum for four years commencing May 1, 1974 with

interest quarterly commencing December 15, 1970, at the prime rate charged by Northwestern National Bank, Minneapolis, Minnesota, on the first of the month in which each payment is required.

Under the terms of this agreement, the subsidiary's franchise in the WHL was suspended for the 1970-71 season, after which time the franchise could be transferred to another subsidiary and to Calgary or another city mutually acceptable to the franchise holder and the WHL. In addition, the franchise holder will not participate in any indemnification or new franchise fee which could be paid to the WHL for a period of three years following the commencement of the 1971-72 season. As at June 30, 1971, the franchise had not been transferred or reactivated in another city. (See Note 11B.)

7. DEBENTURES:

On December 8, 1970, the company issued \$2,000,000 principal amount of 8½% Convertible Subordinated Debentures, Series A, maturing November 15, 1990 (the Debentures) under a Trust Indenture (the Indenture) dated November 15, 1970. The Debentures are, in the opinion of counsel, direct obligations of the company, but are not secured by any mortgage, pledge or other charge. The Indenture permits the company to issue additional debentures subject to certain restrictive covenants regarding the issue of funded obligations. The Indenture also restricts payment of dividends (other than stock dividends) by permitting them to be paid only out of consolidated net income (exclusive of proceeds from the sale of investments and fixed assets) earned subsequent to June 30, 1970, subject to certain provisions relating to redemption and sale of capital stock. As of June 30, 1971 no dividends had been paid and \$610,720 consolidated net income had been earned subsequent to June 30, 1970.

The Indenture also provides for, among other things, the following essential features:

- (a) The right to redeem the Debentures after February 15, 1971, for other than sinking fund purposes, at prices equal to varying percentages of the principal amount (plus accrued and unpaid interest).
- (b) Payment to the Trustee as a sinking fund on or before November 15 in each of the years 1981 to 1989 inclusive, of an amount sufficient to retire \$200,000 principal amount of the Debentures in each of those years.
- (c) Conversion of each \$100 principal amount of the Debentures at the holder's option, at any time up to November 14, 1990, or the close of business on the business day immediately preceding the date fixed for redemption of such Debentures, whichever is earlier, into 10 fully paid and non-assessable common shares of the company. The company has reserved 200,000 unissued common shares for the exercise of the conversion privilege attached to these Debentures.
- (d) Subordination of payment of the Debentures to the prior payment in full of all senior indebtedness, defined to include current liabilities, present or future, on liquidation or other distribution of the assets of the company.

The debenture discount of \$130,000 and related issue expenses of \$62,760 incurred in connection with this issue have been deferred in the accompanying consolidated balance sheet and are being amortized against income (1971 — \$5,810) over the life of the Debentures based on the dollar amount of the Debentures outstanding after adjusting for redemptions, conversions and sinking fund payments.

8. EXTRAORDINARY ITEMS:

Extraordinary items for the year ended June 30, 1970 consisted of:

Territorial indemnification granted to members of the AHL on account of NHL expansion into their territory (net of United States capital gains tax of \$27,700)	\$83,050
Realization of tax savings on application of loss carry forwards	2,750
	\$85,800

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate remuneration paid by the company and its subsidiaries to directors of the company during the year in their capacity as officers (as required by the Companies Act, British Columbia) amounted to \$60,000 (1970 — \$43,750).

The aggregate remuneration paid by the company and its subsidiaries to directors and senior officers during the year in their capacity as officers (as required by The Securities Act, 1966, Ontario) amounted to \$111,200 (1970 — \$56,250).

No remuneration was paid or is payable to directors of the company for the year in their capacity as directors.

10. EARNINGS PER SHARE:

	1971		1970	
	Income Before Extra- Ordinary Items	Net Income for the Year	Income Before Extra- Ordinary Items	Net Income for the Year
Basic earnings per share	\$.67	\$.67	\$.20	\$.34
Fully diluted earnings per share	\$.64	\$.64	—	—

The basic earnings per share have been calculated using the weighted daily average number of shares outstanding during the respective years, which for 1970 gives retroactive effect to an alteration of the company's authorized share capital (50:1) and the subsequent issuance of 200,000 shares in payment of debt in May, 1970 and for 1971 gives effect to the issuance of 200,000 shares on December 8, 1970.

The fully diluted earnings per share have been calculated on the assumption that all of the 8½% Convertible Subordinated Debentures, Series A, had been converted into common shares as of December 8, 1970, the date of issue of such debentures. In calculating the fully diluted earnings per share, the consolidated net income for the year ended June 30, 1971 was increased by the amount of the interest on debentures, net of applicable income taxes, and the number of shares was adjusted for the weighted daily average of additional shares that would have been outstanding on conversion.

11. LEASE COMMITMENTS AND CONTINGENCIES:

A. Leases:

A subsidiary is committed under a long-term lease to 1983 for premises for the playing of professional hockey, at the following rates, based on gross gate receipts:

- (a) 15% up to \$1,000,000
6½% between \$1,000,000 and \$2,300,000
10% in excess of \$2,300,000
- (b) 10% from exhibition games
- (c) 15% from play-off games

The company has an option to renew the lease for a further term of ten years at rental rates to be negotiated.

Another subsidiary is committed under a lease for the 1971-72 hockey season for premises for the playing of professional hockey, at a maximum rental of U.S. \$75,000.

B. Western Hockey League (WHL):

The WHL has informed Vancouver Hockey that it is not an active member of the WHL, is not entitled to participate at WHL meetings and is still obligated to pay the note and interest thereon, as set out in paragraph 6.B(b). The WHL has also denied Vancouver Hockey more time to relocate the franchise in Calgary and has rejected Vancouver Hockey's offers in these circumstances to relocate the franchise in Victoria or to activate it in Vancouver. The company has obtained legal counsel and intends to pursue and enforce its legal rights and recover all damages and other relief available to it under the by-laws of the WHL, the agreement and the law. Vancouver Hockey's investment in the WHL as at June 30, 1971 consists of:

Franchise and rights to players	\$515,077
Investment and equity in league	15,844
Total	<u>\$530,921</u>

C. Legal Action Pending:

A shareholder of the company has filed suit against the company and its directors who held office at the date of signing of a prospectus on November 13, 1970 claiming that the defendants acted fraudulently or were negligent in not disclosing a material transaction and a proposed material transaction in the prospectus for which the shareholder is claiming unspecified damages and costs of the action. The company and the directors named in the suit deny each and every allegation of fact contained in the statement of claim and submit that the action should be dismissed with costs. It is the opinion of legal counsel that this action against the company will not succeed.

12. COMPARATIVE FIGURES:

Certain of the 1970 figures provided for purposes of comparison have been restated to conform with the classifications used in the current year.

AUDITORS' REPORT

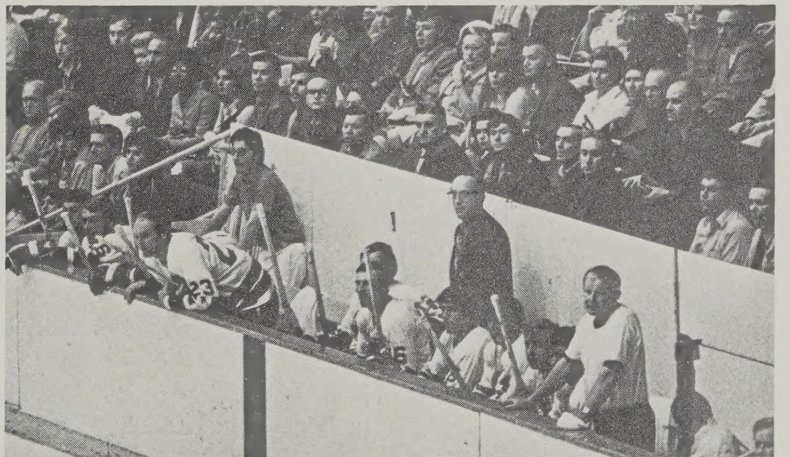
To the Shareholders of
Northwest Sports Enterprises Ltd.:

We have examined the consolidated balance sheet of Northwest Sports Enterprises Ltd. and its subsidiaries as at June 30, 1971 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company and its subsidiaries as at June 30, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

September 10, 1971
Vancouver, British Columbia

DELOITTE, HASKINS & SELLS
Chartered Accountants





vancouver
canucks

MEMBER OF



Notes to the Consolidated Financial Statements

December 31, 1971

1. Accounting Practices:

A. Revenue:

The company, through two subsidiary companies, operates the Vancouver Canucks in the National Hockey League and the Rochester Americans in the American Hockey League. Revenue from ticket sales is earned exclusively from games played at each team's home arena. As a result, for interim reporting purposes, revenue will vary with the scheduled dates of home games drawn each year for each league. To December 31, 1971, the Vancouver Canucks had played 19 of 39 (1970 - 17 of 39) regular season home games and 16 of 39 (1970 - 30 of 39) regular season away games whereas Rochester had played 17 of 36 (1970 - 17 of 36) home games and 17 of 36 (1970 - 13 of 36) away games.

Revenue from sales of program advertising and radio and T.V. rights is credited to income on the basis of the applicable home games played.

B. Prepaid Expenses:

During the 1971 period, the subsidiary company that operates the team in the National Hockey League deferred certain material direct costs amounting to \$75,560 (1970 - \$93,300) which will be charged against future revenue on either a home game by game or monthly basis, depending upon the nature of the expense over the last half of the company's fiscal year.

2. Income Taxes:

It is the practice of the companies not to amortize the original cost of franchises and rights to players against income. However, one of the subsidiaries, the Vancouver Hockey Club Ltd., has requested a ruling from the Department of National Revenue - Taxation Division on the amortization of such costs against income for income tax purposes. As reported previously, the company is confident that a favourable ruling will be obtained and that the amount of tax savings resulting therefrom will be reflected in a reduction of current income taxes payable and a corresponding increase in working capital. The comparative figures for 1970 have been restated to include a provision for income taxes to conform with the practice set out in Note 5 to the consolidated financial statements included in the annual report.

The company and its U.S. subsidiary have tax losses available to be carried forward approximating \$31,000 and U.S. \$249,000 respectively of which \$3,000 and U.S. \$158,000 were incurred during the period.

3. Earnings per Share:

The basic earnings per share have been calculated using the weighted daily average number of shares outstanding during the respective periods, which for 1970 gives retroactive effect to an alteration of the company's authorized share capital (50:1) in May, 1970.

The fully diluted earnings per share have been calculated on the assumption that all of the 8½% convertible subordinated debentures series A had been converted into common shares as of December 8, 1970, the date of issue of such debentures. In calculating the fully diluted earnings per share, the net income was increased by the interest on debentures net of income taxes, and the number of shares was adjusted for the weighted daily average of additional shares that would have been outstanding on conversion.

AR17

NORTHWEST SPORTS ENTERPRISES LTD. *corp.*

VANCOUVER CANUCKS

MEMBER OF NATIONAL HOCKEY LEAGUE

REPORT TO SHAREHOLDERS

FIRST HALF ENDED

DECEMBER 31, 1971



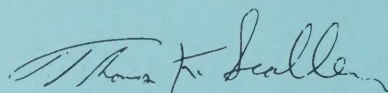
Northwest Sports Enterprises Ltd.

Pacific Coliseum, 100 North Renfrew Street, Vancouver 6, B.C.

REPORT TO SHAREHOLDERS

Profits are up substantially this year due largely to the fact that the home games of the Vancouver Canucks have been completely sold out for the 1971-72 season, and there were two more home games in the first half this year compared to last year. As well, there were greater radio and television revenues due primarily to one additional televised home game in the first half this year.

Earnings per share, based on the weighted daily average number of shares issued and outstanding during the first six month period ended December 31, 1971, have amounted to 30.59¢ per share, and 29.38¢ per share, on a fully diluted basis. This compares to earnings per share of 26.76¢ for the same period one year ago and 26.58¢ per share on a fully diluted basis.



THOMAS K. SCALLEN
President

Northwest Sports Enterprises Ltd.

and its Subsidiaries

Consolidated Statement of Income

For the six months ended December 31, 1971
(with 1970 figures for comparison)

Unaudited	1971	1970
Revenue (Note 1)		
Game ticket sales	\$1,871,800	\$1,629,000
Program advertising and radio and T.V. rights — net	487,500	373,100
Interest income	131,800	14,700
Sundry — net	34,600	15,500
	<u>\$2,525,700</u>	<u>\$2,032,300</u>

Expenses (Note 1)

Operating:		
Team costs	\$ 771,600	\$ 775,300
Rent	196,300	162,300
Other	106,000	102,300
General and Administrative	356,500	319,900
Interest on long-term debt	205,500	111,300
Other expenses (income) — net	143,900	65,700
	<u>\$1,779,800</u>	<u>\$1,536,800</u>

Income Before Income Taxes	\$ 745,900	\$ 495,500
Provision for Income Taxes (Note 2)	440,000	274,450
Net Income for the Period	\$ 305,900	\$ 221,050
Basic earnings per share (Note 3)	30.59¢	26.76¢
Fully diluted earnings per share (Note 3)	29.38¢	26.58¢

Northwest Sports Enterprises Ltd.

and its Subsidiaries

Consolidated Statement of Source and Application of Funds

For the six months ended December 31, 1971
(with 1970 figures for comparison)

Unaudited	1971	1970
Funds Provided:		
Funds provided from operations representing net income after adjusting for items not requiring an outlay of funds	\$ 318,400	\$ 499,500
Issue of 8½ % convertible subordinated debentures (net of related discount and issue expenses 1971 — \$5,800; 1970 — \$187,600)	(5,800)	1,812,400
Issue of common shares (net of related issue expenses of \$36,200 charged direct to retained earnings)		1,522,200
Reduction in non-current portion of indemnifications receivable	17,600	97,100
Other — net		1,900
Total funds provided	\$ 330,200	\$3,933,100

Funds Applied:

Additions to leasehold improvements and equipment	\$ 2,900	\$ 67,200
Reduction in non-current portion of long-term debt	155,100	206,700
Reduction in long-term portion of deferred income taxes	1,500	
Sundry investments	10,100	
Dividends paid	250,000	
Total funds applied	\$ 419,600	\$ 273,900
Increase (Decrease) in Working Capital	(\$ 89,300)	\$3,659,200
Working Capital (Deficiency) at Beginning of the Year	116,100	(2,635,900)
Working Capital at End of the Year	\$ 26,800	\$1,023,300